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FINANCIAL DIGEST

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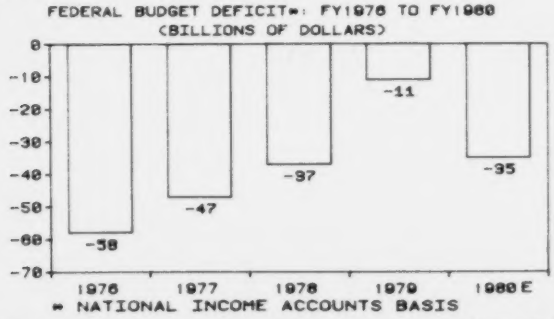
THE LARGER FEDERAL DEFICIT . . .

One of the major question marks expected to overhang the financial markets in 1980 is the likely impact of a much expanded federal government deficit. There is a growing belief that stepped-up government borrowings will either propel interest rates even higher, or at least preclude any significant decline. It would seem, however, that for a variety of reasons—including a large Treasury cash balance, state and local government offsets, and weak private sector demand—the federal government's impact on the financial markets will not be unduly disruptive.



Specifically, the central government's budget deficit during fiscal 1980 is expected to reach almost $35 billion, or more than three times the size of the budget deficit registered in fiscal 1979. (See chart; the federal deficit is presented on a National Income Accounts basis for purposes of comparability with state and local figures discussed below. The federal deficit could reach $50 billion on the more familiar unified budget basis, about twice the size of the comparable fiscal 1979 result.) Put simply, as the economy weakens, revenues will be adversely affected by slower personal income and business profits growth. Expenditures, by contrast, will rise sharply, reflecting greater countercyclical spending for such items as extended unemployment insurance benefits. In addition, increased defense and interest cost outlays in fiscal 1980 may add as much as $20 billion to the expenditure totals, while a possible tax reduction could lead to a much larger actual deficit.

It is also important to note that the budget deficit alone, regardless of its eventual size, does not exclusively measure the federal impact on the financial markets. To this must be added the credit demands of the off-budget, federally-sponsored agencies such as the Federal National Mortgage Association and the Farm Credit Banks. These institutions may raise as much as $12 billion this year, similar to year-earlier levels. Thus with the budget deficit expanding and off-budget agency spending remaining the same, there is little doubt that the federal government borrowing requirement will balloon.

. . . WILL NOT BE DISRUPTIVE

The impact of this larger deficit, however, may have been exaggerated. For although large federal deficits have often been associated with rising interest rates, such a linkage may not occur in 1980. First, the Treasury ended fiscal year 1979 with a sizeable cash balance—more than $24 billion—some of which can be used to finance the larger deficit. (The average cash balance during the fiscal year was $16 billion.) Consequently, the borrowing requirement will be somewhat less than the actual deficit, rather than more, had the need arisen to rebuild cash balances.

Second, the financial market impact of the expanded federal deficit will be offset, to some extent, by a surplus at the state and local level—possibly $20 billion in fiscal 1980. While this outcome is about $5 billion lower than year-earlier levels, state and local governments—especially their retirement funds—will remain large net suppliers of credit to the financial markets, dampening the influence of federal borrowing. Third, the larger public sector borrowing requirement should coincide with a weakening of private sector credit demand, facilitating the acommodation of both without undue disruption or upward pressure on interest rates.

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures—Millions of Dollars)

Week Ending 11/16/79

		Change Since	
Reserve Bank Credit:		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	122,841	— 324	+ 5,723
Member Bank Borrowings	1,858	— 70	+ 1,226
Float	5,672	+1,285	— 560
Total Reserve Bank Credit	135,412	+1,008	+ 8,361
Treasury Deposits with Federal Reserve Banks	2,851	— 295	— 5,241
Currency Outside Banks	110,000	+ 917	+ 9,359
Member Bank Reserves:			
Required	42,610	+ 502	+ 4,847
Excess (Deficiency)	219	— 258	— 48
Total Reserves Held	42,829	+ 244	+ 4,799
Net Borrowed Reserves	1,506	+ 206	+ 1,330
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	77,055	—2,982	—14,075

r-Revised

	11/7/79		
Money Supply ($ Bil., SA) M1	379.2	+ 3.0	+4.7%
Money Supply ($ Bil., SA) M2	942.2	+ 4.4	+7.8%

NEW YORK MONEY MARKET

Offering Rates 11/23/79

	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.51%	11.56%	11.01%
*Federal Agencies	12.95	12.95	12.31
*Project Notes—Tax Free (46% Taxable Equivalent)	6.40	6.40	n.a.
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	13.50	13.60	

‡Finance Company Paper—Prime

5- 14 days	8.00%
15- 29 days	12.50
30- 59 days	13.00
60- 89 days	13.38
90-270 days	12.00

‡Industrial Paper—Prime

30- 89 days	13.13
90-120 days	13.38

‡*Bankers' Acceptances

Dec.	13.20%
Jan.	13.55
Feb.	13.55
Mar.	13.60
Apr.	13.40
May	13.25

†Federal Funds Effective Rate 12.35%

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'79n	$ 2,395	$ 2,330	$ 2,160
Gross National Product (1972 Dollars)*	3rd Q'79n	$ 1,434	$ 1,422	$ 1,407
Percent Change, Annual Rate	3rd Q'79n	3.4%	—2.3%	3.5%
Change in Consumer Prices (all urban consumers)*	Sept. '79	13.2%	13.2%	10.8%
Change in Producer Prices*	Oct. '79	12.0%	16.8%	9.6%
Civilian Employment (Thousands of Persons)†	Oct. '79	97,293	97,513	95,241
Unemployment as % of Civilian Labor Force†	Oct. '79	6.0%	5.8%	5.8%
Personal Income*	Oct. '79n	$ 1,975	$ 1,959	$ 1,781
Leading Indicators Composite Index (1967=100)†	Sept. '79	141.3	140.2	142.9
Industrial Production Index (1967=100)†	Oct. '79	152.5	152.3	149.7
Net Change in Consumer Instalment Credit†	Sept. '79	$ 4.45	$ 2.45	$ 3.68
U.S. Merchandise Trade Balance†	Sept. '79	—$ 2.83	—$ 2.36	—$ 1.55
Plant and Equipment Expenditures*	4th Q'79	$179.56(a)	$174.74(a)	$163.96
Private Housing Starts (Thousands of Units)*	Oct. '79n	1,760	1,911	2,054
New Construction Expenditures*	Sept. '79	$ 235.8	$ 232.4	$ 215.3
Total Business Inventories†	Sept. '79	$ 417.3	$ 416.9	$ 369.2
Total Business Sales†	Sept. '79	$ 297.1	$ 292.9	$ 260.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (11/14/79)	91,422	+ 827	— 2,385
New York City (11/21/79)	19,050	+ 193	— 9,570
Commercial Paper (11/14/79)	111,036	+3,364	+30,086

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/14/79)	152,126	— 550	+20,953
New York City (11/21/79)	45,541	+ 150	+ 6,953

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/14/79)	387,894	+ 815	+50,758
New York City (11/21/79)	88,492	+ 715	+ 9,437

SECURITY MARKETS

	Friday 11/23/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	11.35%	— .55	+ 2.51
180-Day Bills (Discount Basis)	11.42	— .60	+ 2.31
Longest Bills (Discount Basis)	10.91	— .35	+ 1.58
12⅛s 11/30/81 (w. i)	100.25	N.A.	
11⅝s 5/15/83	102.0	+ 29/32	
10¾s 11/15/89	101.15	+ 1-18/32	
10⅛s 11/15/94	98.8	+ 2-3/32	
10⅜s 11/15/09	101.15	+ 1-23/32	
Municipals:			
Bond Buyer—20 Bond Index* (11/21/79)	7.38%	+ .07	+ 1.22
Blue List Total ($ Million)	$ 815	+$ 108	+$ 22
30-Day Visible Supply ($ Million)	$1,269	—$ 152	—$ 591
Total	$2,084	—$ 44	—$ 569
Corporates:			
Moody's Aa Composite (11/20/79)	11.27%	+ .01	+ 2.04
Money Mgr.—30-Day Supply ($ Million)	$1,717	—$ 65	+$ 498
Stocks:			
Dow-Jones Averages			
Industrials	811.77	— 3.93	+ 1.65
Transportation	243.67	+ 2.34	+ 29.07
Utilities	104.94	+ 2.61	+ 5.62
65 Stocks	289.38	+ 1.29	+ 12.94
Standard and Poor's 500 Stocks	103.79	+ 2.22	+ 9.37
N.Y.S.E. Composite Index	59.66	+ .55	+ 6.22
N.Y.S.E. Avg. Daily Vol. for Week (000's)	32,123	+ 2,221	+12,191

*46% Taxable Equivalent 13.67%

INTERNATIONAL RATES

	Friday 11/23/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	12.25%	13.13%
1 month	13.50	14.50
3 months	14.50	15.31
6 months	14.50	15.13
1 year	13.38	13.88
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.85%	11.50%
Long Term (10 to 15 yrs.)	11.75	11.50
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03496	.03460
Canada	.8498	.8463
France	.2416	.2391
Germany	.5676	.5601
Italy	.001215	.001205
Japan	.004010	.004046
Mexico	.04374	.04370
Netherlands	.5082	.5039
Switzerland	.6042	.6033
U.K.	2.1600	2.1440

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